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THE JAMESTOWN FOUNDATION

To: Our Friends
From: Bill Geimer
Re: Issue Report
Date: August 5, 1988

For your information, we're enclosing some background material on the issue of untied loans to the Soviet bloc. This is a question which has been of concern to several Jamestown clients. It's also a subject on which Jamestown advisors Dick Cheney, Tom Lantos, and Malcolm Wallop have been active. But until now it hasn't intruded noticeably on the public's consciousness.

The Wall Street Journal has been almost alone in addressing the credit flow to the East. However we understand that both Business Week and U.S. News & World Report are planning major stories in the near future. Roger Robinson, formerly of the NSC and a leading expert on this topic, is scheduled to make several network TV appearances. And we understand that on Monday, August 8, Governor Dukakis will meet for 45 minutes with Congressman Schumer for the sole purpose of discussing this issue. We're therefore inclined to believe that this question might become very public very soon; and we thought you might appreciate having some background on it.

C-112-IR

1712 NEW HAMPSHIRE AVENUE, N.W., WASHINGTON, D.C. 20009 (202) 483-8888

John Reed Minds the Store

REVIEW & OUTLOOK

WALL STREET JOURNAL
FRIDAY, JULY 29,1988

"Who knows which political system works," says Thomas Theobald, senior executive vice president in charge of Citibank's international division. "The only test we care about is: Can they pay their bills?"—From a Dec. 21, 1981, Wall Street Journal article by Julie Salamon, dealing with Polish debt.

". . . if the adjustment policies show no foreseeable long-term solution, financing will not be forthcoming, but the country does not go bankrupt."—Walter B. Wriston, chairman of Citicorp., the New York Times, Sept. 14, 1982.

Since these words were uttered, Mr. Wriston has retired and Mr. Theobald has moved on to run Continental Illinois. John Reed, the current Citicorp chairman, is rather busy trying to get sovereign-risk loans of somewhat diminished value off his books. But even with Mr. Reed minding the store, Citicorp's German unit, Citibank AG, the German unit of Citicorp, turns up this week as a senior co-manager of the Soviet Union's first really serious dip into the Western bond markets, a 500 million deutsche mark ($270 million) offering of seven-year notes, bearing a princely interest rate of 6⅝%.

In one sense this is safer than some of Citibank's earlier East-bloc ventures, since instead of keeping its depositors' money at risk it will peddle the notes to individual and institutional investors. And of course, Citibank and the other participating U.S. firms—Shearson, Salomon and Morgan Stanley—aren't going to be very big players in this deal relative to the underwritings they customarily handle. The German banks, which along with the German government want to demonstrate their good will toward the Soviets, are leading the way on this issue and probably will be on issues to come once the Soviets develop a taste for easy access to the savings of Western businesses and wage earners.

Still, there are a few little problems. Disclosure, for example. The ostensible borrower is something called the Bank for Foreign Economic Affairs of the U.S.S.R. (BFEA). In West Germany, a sovereign borrower is supposed to publish relevant economic data when it issues bonds. After all, they are going to be publicly traded. An application will be made to list these on the Frankfurt exchange. But this data isn't going to be demanded because—wait for it—the bankers involved claim the BFEA isn't a sovereign entity and the loan isn't being guaranteed by the Soviet government.

BFEA was also the borrower in the Soviet's maiden 100 million Swiss francs ($65 million) last January. The information memorandum issued on behalf of that issue listed the bank's "shareholders," for example, the All-Union Agency of Authors' Rights Reservation and the Central Union of Consumers' Societies. But the main holders are the State Bank of the U.S.S.R., and the ministries of finance and trade. So the BFEA is a government enterprise, as are all enterprises in the U.S.S.R.

Now, we can understand why the Soviets and the West Germans who are trying to woo them would prefer not to disclose the real Soviet balance sheet, or, more to the point, the Soviet-bloc balance sheet. By current estimate, outstanding debt of the Soviet bloc is about $130 billion, which is a lot of money for a group of countries with very limited capacity to earn hard currency.

Indeed, some Western banks told the BFEA no thanks. The Dow Jones Capital Markets Report quoted sources as saying that a unit of that most aggressive of deal makers, Credit Suisse First Boston, declined in advance to join the credit, for political reasons. The French Treasury, with socialists now at the helm, reportedly let it be known French banks should stay out.

A former senior staffer on President Reagan's National Security Council, Roger W. Robinson, warns that "the Soviet entry into the international securities markets allows Moscow to recruit, for the first time, Western securities firms, pension funds, insurance companies, corporations and even individuals as lenders of untied money to the U.S.S.R."

President Reagan has twice—prior to both the Venice and Toronto summits—been urged by bipartisan groups of Congressmen and Senators to raise with the allies the national-security dimensions of the Moscow's entry into the securities markets. On June 15, the Senate passed by a vote of 96 to 0 a resolution—sponsored by two Democrats, Sasser of Tennessee and Bradley of New Jersey—urging the President to place the issue of the impact on Western security of credit flows to Warsaw-pact countries on the formal agenda at Toronto.

So far, the administration has ignored these appeals, and so have Mr. Reed and other bankers. It seems that the principles enunciated at the beginning of this decade by Messrs. Wriston and Theobald still prevail—if not in lending the bank's money, at least in suggesting that other investors put up the cash.

THE JAMESTOWN FOUNDATION

I would like to support you in your important work assisting high level defectors from the Soviet bloc to be heard in the United States. Enclosed is my tax exempt contribution in the amount of:

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6/1/88

Fact Sheet On Untied Loans To The Soviet Bloc

- o The Treasury Department estimates that medium-term loans made by Western banks and governments to the Soviet Bloc in 1986 totalled about $24 billion (an average of roughly $2 billion a month). PlanEcon Inc. estimates total Western loans to Soviet Bloc borrowers in 1986 of about $38 billion when short-term credits are included.

- o Approximately 80% of the total amount of medium-term Western credits to the Soviet Bloc in 1986, or about $19 billion, took the form of untied, general purpose loans--pure cash with no underlying trade transactions, projects, or jobs.

- o The proceeds of untied, cash loans can be easily diverted by the Soviets for purposes inimical to vital Western security interests, such as support for Soviet client states, the KGB/GRU, the theft of militarily-relevant Western technology etc.

- o The interest rates on Western untied loans to the Soviet Bloc in 1986 were extremely generous -- only about 1/8 of 1% over the cost of funds (about 7 1/2%) to the USSR, Bulgaria and Czechoslovakia -- a fraction of the spreads paid by Latin American debtors nations and Western companies and citizens, with few exceptions. These low interest loans are extended for 8-12 years for most syndicated credits.

- o Untied, general purpose bank lending to sovereign borrowers was one of the principal causes of the current trillion-dollar international debt crisis and is a lending practice that the Institute for International Finance based in Washington, D.C. has recommended against.

- o It is estimated that between 85% and 90% of all Western loans to the Soviet Bloc are from private Western commercial banks compared to only about a 30% - 40% share in the 1970's. The remaining credits are provided by Western governments.

- o The Soviet Bloc is estimated to have total external indebtedness in excess of $130 billion (over $40 billion of which is that of the USSR). The debt crisis is worsening in Eastern Europe with Western banks having already written off their share of Poland's $38 billion in debt, and with Hungary in the midst of a Western financial rescue effort to help support its $18 billion in debt.

- o Roughly $10 billion in Western bank deposits in Soviet-owned subsidiary banks located in the West are also untied credits. These deposits/loans are currently not included in Western statistics as part of the total indebtedness of the USSR and can be used by the Soviets as a kind of invisible, untied reserve checking account at the cost of funds. There are other serious gaps in Western data collection and reporting concerning Western credit flows to Warsaw Pact countries.

- o The USSR is seriously short of the hard currencies which these untied loans provide. Total Soviet hard currency income in 1986 was only about

$30 billion or the equivalent of a little over one-quarter of the total sales of General Motors that same year. Soviet hard currency expenditures in 1986, which included Western imports, the servicing of debt, and the costs of empire, significantly exceeded this level of income. The sizeable financing gap was filled primarily by untied loans from Western commercial banks.

- In 1986, nearly 100% of the hard currency requirements to support Soviet global commitments and activities were funded on Western financial markets, if one assumes that Soviet hard currency income was earmarked solely for the purchase of imports from the West and to service debt.

- The USSR derives between 80 - 90% of its total annual hard currency income from just four export items - oil, gas, arms and gold. The energy sector of the Soviet economy is the strategic centerpiece of Moscow's hard currency earnings structure.

- On May 10, 1988, Secretary Carlucci acknowledged in testimony before Congress regarding untied loans, "we are unhappy about these kinds of loans. We have raised the question in general terms because it does put an added defense burden on the NATO allies." Carlucci publicly opposed a recent $2.1 billion West German credit line to the Soviets.

- The Soviets have already entered the international securities markets in the search for new sources of untied funds (i.e. the issuing of bonds, notes, etc.) In January, 1988 for the first time the Soviets floated a $77 million bond led by a West German bank based in Switzerland. A second bond issue, also led by a West German bank, is reportedly imminent. By entering the securities markets, Moscow can now potentially recruit Western securities firms, pension funds, insurance companies, corporations, and even individuals as new lenders of untied funds. The Reagan Administration has resisted any allied consultations concerning this strategic development.

- Japan has reportedly become the largest source of new loans to the Soviet Bloc over the past three years (as much as 40% of total Western loans in 1986) with Western Europe providing about 55% and US banks about 2-4%.

- Numerous Senators and Congressmen <u>on a bipartisan basis</u> support an immediate multilateral initiative led by the United States at the Toronto Economic Summit to phase-out untied, general purpose lending by Western commercial banks to Warsaw Pact nations, Cuba, Vietman, Libya and Nicaragua for solid commercial, national security, and human rights reasons.

Roger W. Robinson, Jr.

Economic And Financial Burden-Sharing

The relationship between U.S. international economic policies and national security is rapidly gaining public prominence and bipartisan congressional attention. The coordinated adoption and reaffirmation of more disciplined East-West financial policies should become the next major alliance burden-sharing obligation. The lack of Western public support for increased defense spending to modernize conventional and nuclear forces and maintain an effective global basing structure is a compelling argument for allied cooperation in curtailing the undisciplined financial underwriting of a substantial portion of Soviet global commitments by Western banks. The West can no longer afford to counter the strategic consequences of the continued flow of billions of dollars in untied commercial bank credits to Soviet bloc borrowers (estimated at over $20 billion in 1986 alone).

Similarly, the alliance would pay an exorbitant defense price were it to abandon the International Energy Agency (IEA) agreement of May 1983, which, in effect, limits Soviet natural gas

Roger W. Robinson, Jr., is President, RWR, Inc., and former Senior Director for International Economic Affairs at the National Security Council (1982-85).

deliveries to Western Europe beyond those amounts already contracted by year-end 1982 (i.e., a 30-percent ceiling on the Soviet share of total West European gas supplies). This IEA agreement, endorsed in the Williamsburg Summit Declaration (May 1983) and the NATO Ministerial Communiqué (June 1983), is projected to cost Moscow roughly $150 billion in forgone hard currency income over a twenty-five-year period beginning in the mid- to late 1990s. Sustained implementation of the IEA agreement would ensure that constructive economic pressures on the USSR for arms control would remain. The agreement is also preventing the Soviets from eventually commanding a 50-60 percent share of Western Europe's total gas supplies and the attendant political leverage that would result from such a development.

The uncontested Soviet entry into the international securities markets in January 1988 is representative of the kind of strategic setback the West is now facing as Moscow pursues its ambitious international economic agenda. For the first time, Western securities firms, pension funds, insurance companies, corporations, and even individuals are being attracted as new lenders of untied funds to the USSR. Not only does this development open new avenues for Moscow to obtain, over time, billions of dollars in additional general purpose, cash loans, but it potentially recruits politically influential new constituencies in the West that would have a vested interest in supporting continued economic, financial, and even political concessions to the USSR.

The purpose of this paper is to outline briefly proposed alliance policy prescriptions in the field of economic and financial security, including recommended Western responses to current and projected Soviet economic policies toward the West.

I. Achieve an alliance agreement to phase out untied, general purpose lending to Warsaw Pact countries and other potential adversaries.

Untied loans are loans that are discretionary cash with no underlying trade transactions, projects, or jobs. Untied, general purpose lending to sovereign borrowers was one of the four major causes of the current trillion-dollar international debt crisis (along with the collapse of commodity prices, disinflation, and capital flight) and therefore cannot be justified from a purely commercial perspective. Untied funds are not earmarked for productive purposes, such as export-oriented industries, and hence do not create the expanded economic growth necessary to repay the loans. Ironically, the Soviet bloc is one of the only group of countries remaining in the world that continue to receive 1970s-style general purpose loans on the syndicated loan market.

In 1986, about 80 percent or $19 billion of the estimated $24 billion in medium-term Western commercial bank loans made to Soviet bloc borrowers were in the form of untied cash credits (not including short-term credits or deposits). The interest rates on 8-10 year loans to the USSR, Bulgaria, and Czechoslovakia were very low compared with terms for LDC borrowers, approximately $^{1}/_{8}$th of 1 percent over the cost of funds (about $7^{1}/_{2}$ percent).

The next economic summit of the industrialized countries in Toronto should be used to launch a multilateral initiative to supervise and monitor the voluntary adoption by commercial banks of more disciplined and transparent Western lending practices with regard to Warsaw Pact countries and other potential adversaries.

The Organization of Economic Cooperation and Development (OECD) and/or the Economic Committee of NATO are well equipped to supervise such a voluntary initiative and have successfully accomplished the implementation of similar undertakings in the past (e.g., there are at least three major OECD precedents for financial and trade reforms in the 1980s, when the U.S. share of the practice in question was marginal or nonexistent).

Western commercial banks should eliminate untied credits by: 1) lending only in support of specific trade transactions and projects; 2) matching loan maturities to the duration of the underlying transactions; 3) aggregating and monitoring bank deposits in Soviet bloc-owned banks, including those located in the West; and 4) applying established project lending techniques to ensure that loan proceeds are strictly dedicated to the project or joint venture in question.

The U.S. government should include the untied loan issue and other major East-West economic and financial security policies as central components of all future approaches to our allies (bilaterally and multilaterally) in the area of defense burden-sharing. The multibillion dollar annual savings for U.S. taxpayers in the defense budget that could eventually result from such coordinated economic and financial burden-sharing policies should be underscored.

Alliance governments should deny the USSR expanded access to international securities markets because of the potentially damaging consequences to vital Western security interests that result from the diversion of untied Western borrowings by Moscow (e.g., support for client states, funding of Soviet arms sales, KGB activities, etc.).

The allies should reaffirm the OECD agreement reached in 1982 discouraging taxpayer-subsidized terms on government-backed loans to the USSR.

II. Western governments and financial institutions need to substantially upgrade financial data collection and disclosure concerning Soviet bloc indebtedness and financial flows.

The Bank for International Settlements (BIS) should close current gaps in Western statistical reporting. For example, inter-German financial flows, presently not reported to the BIS, should be detailed in BIS periodic reviews.

The BIS should include the estimated $10 billion in Western bank deposits in wholly-owned Soviet subsidiary banks located in the West as part of the total indebtedness of the Soviet Union. (These deposits, which are untied loans, are currently listed as the debt of the Western countries in which the banks are located.)

The BIS should report credit exposure of Western non-banking institutions (e.g., trading companies, securities firms, pension funds, etc.) as part of the total indebtedness of the USSR. The same should hold for Western credit exposure to Soviet joint ventures, whether in the USSR or third countries.

The Federal Reserve should collect data detailing all credit exposure to the Soviet bloc (including deposit placings) of U.S. banks from offshore branches and subsidiaries, and make the data available for public review.

The OECD and/or the Economic Committee of NATO should examine the quality and terms of Soviet hard currency loans to Third World countries (estimated to total as much as $65 billion) in order to identify the scale of portfolio problems.

Western commercial banks should try to ensure that the proceeds of Western bank loans to and deposits with banks or third countries (e.g., the Middle East or Finland) are not downstreamed to Warsaw Pact countries on an unreported basis.

Western intelligence agencies should monitor, if possible, the accounts of Soviet client states to ensure that the proceeds of Western syndicated credits to Soviet bloc borrowers (e.g., the German Democratic Republic) are not "skimmed" and downstreamed to those accounts on an unreported basis.

Western commercial banks should tightly structure loans dedicated to large projects and joint ventures within the Soviet bloc to ensure that the loans are not, in effect, providing duplicate financing for the project or joint venture in question. For example, in the case of the massive Orenburg gas pipeline project in the USSR during the late 1970s, the Soviet bloc paid for Western equipment imports primarily through natural gas deliveries, while the proceeds of the series of Western "project" loans, ostensibly for the same purpose, were largely diverted for other purposes.

Those involved in data collection should recognize that the uses of Western borrowings and West to East financial flows can be potentially strategic in nature, depending on whether the funds are tied to identifiable, peaceful purposes. The Soviets have incentives to divert credits given their shortages of hard currency income. In 1986 the Soviets earned only about $30 billion in hard currency, or a little over a quarter of the total sales of General Motors in 1986. In addition, it should be recognized that the temptation for Soviet bloc diversion of Western borrowings is substantial given the debt-laden status of Cuba, Nicaragua, Ethiopia, Mozambique, Syria, Angola, Afghanistan, and Vietnam.

III. The allies should reaffirm the IEA agreement of May 1983 in the context of economic summitry and NATO ministerials.

The Soviets reportedly expanded their gas exports to Western Europe by roughly 20 percent last year and are gradually approaching the 30-percent ceiling on Moscow's share of total West European gas supplies that is, in effect, embodied in the IEA agreement. Soviet predatory pricing practices could easily undercut the commercial viability of future Norwegian and other more secure Western supplies in the absence of the IEA agreement.

The recent establishment of an official U.S.-Soviet energy working group has sent an inconsistent signal to our allies concerning U.S. resolve to inhibit Soviet gas exports to Western Europe beyond those amounts already contracted by year-end 1982.

Japan is under pressure from Moscow to proceed with the $3-3.5 billion development phase of the Sakhalin offshore gas and oil project (i.e., a subsidized joint venture between Japan and the USSR established in the mid-1970s). Tokyo should be urged to reserve its projected LNG demand in the 1990s and beyond for competitive U.S. supplies, not Soviet or other less secure third country supplies. This would both enhance Asian energy security and help ease our serious bilateral trade imbalance.

Generally, it should be recognized that the energy sector is the most strategic civilian sector of the Soviet economy, accounting for about 65 percent of total annual Soviet hard currency income. Any decision by alliance members and Western companies to assist the extraction, processing, and transmission of Soviet energy resources, particularly for export, would provide potentially enormous assistance to the USSR's hard currency earnings and, in the case of natural gas, could create inordinate Western dependency on Soviet supplies.

IV. Strengthen the Coordinating Committee on Multilateral Export Controls (COCOM).

U.S. and Western taxpayers are, in effect, penalized billions of dollars annually in additional and unnecessary defense spending to counter the consequences of the illegal Soviet bloc acquisition of militarily-relevant Western technology. Much of this strategic technology is diverted through third countries.

COCOM has proved useful in impeding the flow of strategic technology to Warsaw Pact countries. Nevertheless, COCOM's annual budget and institutional capabilities are woefully inadequate given the crucial national security function it performs. The administration and the Congress need to persuade our allies to increase substantially both of the above and negotiate effective export control agreements with non-COCOM countries.

The bolstering of enforcement measures is fundamental to the success of COCOM's mandate. The prodigious Soviet effort to illegally acquire and apply strategic Western technology involves billions of dollars and tens of thousands of espionage and technical professionals. The West, in comparison, dedicates a tiny fraction of these massive Soviet resource allocations to curtailing Western sponsorship of Soviet military R&D and hardware requirements.

Although streamlining and routinely reviewing the COCOM list to avoid unnecessarily impeding Western export competitiveness is important, we should not lose sight of the need to secure greater public understanding and support for a stronger COCOM.

V. Reaffirm the Jackson-Vanik and Stevenson amendments to the Trade Act of 1974.

The Jackson-Vanik and Stevenson amendments link the granting of equal tariff treatment (most-favored-nation status) and U.S. Export-Import Bank credits to greater freedom of emigration from the USSR. The amendments have become a symbol of the U.S. commitment to human rights and compliance with the Helsinki Accords and enjoy broad bipartisan congressional support.

Any efforts to decouple the linkage between human rights and East-West economic and financial relations should be opposed until the Soviet Union is in full compliance with the Helsinki Final Act.

During a period when Moscow has an unprecedented need for major Western infusions of capital, equipment, technology, management, distribution, and marketing skills, the leverage to advance the cause of Soviet Jews and other ethnic minorities is particularly potent.

VI. Soviet efforts to gain observer status and membership in Western economic and financial institutions should be opposed.

The Soviets are actively pursuing membership in such institutions as the General Agreement on Tariffs and Trade, the Asian Development Bank, the World Bank, and the International

Monetary Fund, in that order. There are three basic reasons why such efforts by Moscow should be opposed:

The USSR has traditionally used its presence in such organizations for disruptive and propagandistic purposes, often recruiting Third World countries to advance its short-term political goals. Until there is concrete evidence that this kind of behavior has changed, new opportunities should not be presented.

The centrally controlled, command economy of the USSR is fundamentally incompatible with the market-oriented philosophy underpinning these institutions. An irreversible track record of market-oriented economic reform should be present prior to consideration of observer status and membership.

The Soviet Union and other Warsaw Pact countries should demonstrate considerably greater compliance with the Helsinki Accords as a precondition to observer status and membership of these organizations.

VII. U.S. sales of subsidized wheat to the USSR should be ended as part of an alliance effort to eliminate all taxpayer subsidies of trade and financial relations with the USSR.

It is inconsistent for the administration to have achieved a hard-fought allied consensus to eliminate subsidies on government-backed credits to the USSR and then itself engage in subsidized wheat sales. The signal sent by this development could easily erode allied willingness to steer away from any subsidies in trade or financial transactions with Warsaw Pact countries.

Thus far, about thirteen million metric tons of U.S.-subsidized wheat has been sold to Moscow, at an estimated cost of over $500 million to U.S. taxpayers.

The Soviets are now seeking to have wheat subsidies made a permanent feature of the U.S.-USSR Long-Term Grain Agreement through the insertion of language in the agreement to the effect that "U.S. wheat prices will be competitive with the world price." This is a diplomatic way of saying that any disparity between U.S. wheat prices and the world price will be subsidized by U.S. taxpayers or the Soviets will be under no obligation to buy.

On occasion, subsidies may be necessary to counter unfair trading practices by the European Community and other suppliers that routinely use subsidies. Nevertheless, the line should be drawn that a "subsidy war" among the allies favoring Moscow will not be permitted.

VIII. Establish the position of under secretary of defense for international economic security.

The emergence of economic and financial security as a central underpinning of U.S. national security requires a high-level institutional focal point in the administration.

The occupant of this new position would be responsible for identifying, analyzing, and monitoring the range of issues associated with capital, trade, and energy flows primarily between the Free World and potential adversaries.

The under secretary of defense for international economic security would prepare policy recommendations for the president and the cabinet on strategic dimensions of international economic and financial relations, including security-related issues outside of East-West relations, such as the international debt crisis.

The absence of such a position in the executive branch risks the continuation of sporadic, ad hoc attention to this crucial family of issues. For example, how is it possible that the U.S. policy-making community has never systematically analyzed and debated the central question of how the Soviet Union funds itself and its global activities?

IX. Reestablish a cabinet-level Senior Interdepartmental Group-International Economic Policy (SIG-IEP) under the auspices of the National Security Council.

Between July 1982 and April 1985, the SIG-IEP successfully integrated overarching U.S. national security and foreign policy goals in the formulation of international economic policy.

The competing and often contrary views of the relevant government agencies were either reconciled at the cabinet level or accurately translated into options for the president's decision, in the context of his broader foreign policy objectives.

The prominent role of the U.S. security community helped ensure that economic and financial security policies received proper priority on the president's agenda. Regrettably, under the current Economic Policy Council, the roles of Defense, the CIA, and the NSC have been diminished.

* * * *

The suggested policy prescriptions and Western responses to Soviet economic overtures outlined above are specifically designed not to impede the expansion of nonstrategic East-West trade and finance. Implementation of these recommendations on the security aspects of economic and financial relations would substantially reduce Soviet flexibility with regard to financial and technology diversions and could result in multibillion dollar defense-related savings annually for Western taxpayers.

Reforms in East-West trade and finance could even advance prospects for arms control. The Soviets would have a greater incentive to make the kind of positive trade-offs between their military and civilian economies that we are hopeful of seeing in the context of *perestroika*. Thus far, there is no evidence that Mikhail Gorbachev's economic reform program is resulting in reduction of the Soviet military sector's share of Soviet GNP. Indeed, the intelligence community has recently estimated that Soviet defense spending as a share of total GNP increased in 1987.

Most alliance countries have acknowledged the effectiveness of the technique embodied in the words "follow the money" to identify and locate drug traffickers, organized crime figures, inside-traders, espionage agents, and international terrorists. In meeting the Soviet challenge, it is troubling that the same kind of investigatory tool has not been more vigorously applied as a major component of our most vital alliance security policy.